

**Internal Control Assessment
FSA's Managerial Cost Accounting Reports (Cost Allocations)**

Purpose

To ensure that proper internal controls exist regarding FSA's process of allocating departmental overhead costs to its program offices.

Background

In accordance with Federal Accounting Standards Advisory Board Statement No. 4, FSA is required to prepare managerial cost accounting reports to allocate its departmental overhead costs to program offices. Managerial cost accounting is the process of accumulating, measuring, analyzing, interpreting, and reporting cost information useful to both internal and external groups. The standards as they apply to FSA are as follows:

- FSA program offices are required to establish procedures to accumulate and report costs continuously, routinely, and consistently for management information purposes. Also, they are required to establish appropriate procedures and practices to enable the collection, measurement, accumulation, analysis, interpretation, and communication of cost information.
- FSA management must define and establish responsibility segments. The responsibility segments must determine and report the costs of services and products each segment produces. Also, the responsibility segments must accumulate costs and quantitative units of resources consumed in producing outputs. In addition, they must assign costs to outputs, and calculate the cost per unit of each output type.
- FSA must report the full costs of outputs in general purpose financial reports. All direct and indirect costs must be included in the full cost of outputs.
- FSA must utilize appropriate costing methodologies to accumulate and assign costs to outputs. The following are cost allocation methods that are acceptable to OMB:

- Directly Tracing Costs to Outputs;
- Assigning Costs on a Cause-and-Effect Basis; and,
- Allocating Costs to Responsibility Segments or Outputs on a prorated basis.

Internal Control Standard

FSA is required to prepare managerial cost accounting reports, i.e., cost allocations at the minimum, once per fiscal year.

Assessment of FSA's Compliance*

We have reviewed FSA's managerial cost accounting reports and have determined that FSA is following the proper procedures for allocating departmental overhead costs to program offices.

The actual testing phase including interviews and examination of sampled records has not yet occurred. This write up is only a sample of what may be discovered during the testing phase of the FMFIA process.